

SPOKANE SCHOOL DISTRICT No. 81
Spokane County, Washington
September 1, 1993 Through August 31, 1994

Schedule Of Findings

1. Controls Over Cash Receipts Should Be Strengthened

During our review of the receipting system we noted the following internal control weaknesses:

- a. The district cashier is not depositing receipts intact.
- b. The cashier has been given the authority to and does personally cash district checks at the bank to make change.
- c. The district is cashing employees' checks without the cash register recording the transaction.
- d. Amounts paid out are not recorded on the cash register, i.e., petty cash type expenditures.
- e. Deposits are not reconciled to the cash register tape and the accounting records.
- f. Access to the cash register is not limited to a single cashier nor is it limited only to cashiers. The district is not able to fix responsibility for cash receipts to one cashier, therefore, there is little accountability over the system.
- g. Receipts are not routinely issued or attached to invoices to verify formal recording of the transaction. Each cashier has the ability to switch off the cash register receipting function (printing of cash register tape).
- h. The cashier writes checks on the ASB and a General Fund Revolving account.

A basic principle of internal accounting controls requires the segregation of duties relating to the custody of assets from the responsibility for maintaining the related records of accountability.

The weaknesses identified have increased the possibility that district assets will be misused or misappropriated and not detected in a timely manner, if at all.

The district has not established adequate internal controls over the cash receipting system.

We recommend the district strengthen the cash receipting internal control system. This includes, but is not limited to, the following:

- a. Deposit all receipts intact.

- b. Cease cashing district checks at the bank to make change.
- c. Cease cashing employee checks from the district cash receipts. Establish a separate imprest account if employee checks are going to be cashed.
- d. Record all receipts and disbursements in the cash register.
- e. Reconcile the cash register to the accounting records and deposits daily.
- f. Restrict cash register access to cashiers and limit the number of cashiers operating out of one cash drawer.
- g. Issue cash register receipt tapes always. Remove ability to turn off cash register receipting function.
- h. Remove all check writing responsibilities from cashiers.

2. The District Should Maintain Records To Support Enrollment Reporting

During our audit of enrollment we found that the district records are not sufficient to allow verification of state enrollment reports for fiscal year 1993-94. Prior year enrollment records are maintained for only two months of each year. We were able to materially verify fiscal year 1994-95 enrollment reported to the Superintendent of Public Instruction (SPI) by reconstructing district records.

The SPI Administrative and School Business Services Bulletin No. 36-94 Section V Part L, states in part:

Because enrollments reported on Forms P-223 and P-223H generate state moneys, school districts must retain supporting documentation for audit

The bulletin then lists specific retention requirements.

Because the district did not maintain the required records, we are unable to determine if enrollment reported to SPI for the year under audit was accurate.

The district maintains enrollment records in numerous locations and various forms. The district has not established policies and procedures to ensure that a comprehensive set of records is retained.

We recommend the district establish procedures to ensure records are maintained in the manner prescribed by SPI.

SPOKANE SCHOOL DISTRICT No. 81
Spokane County, Washington
September 1, 1993 Through August 31, 1994

Schedule Of Federal Findings

1. The District Should Accurately Report Handicapped Enrollment To The Superintendent Of Public Instruction

The district does not have an adequate internal control system to ensure that only eligible students are included on the Monthly Report of School District Handicapped Enrollment (P-223H report) submitted to the Superintendent of Public Instruction (SPI). During our audit of the district's handicapped enrollment reporting system we found the district routinely included ineligible students on the P-223H report. As noted in Finding 2, enrollment records are only retained for two months out of the school year. Our review of the district's own enrollment report (SDB323A) for October 1993 found that the majority of ineligible students were flagged (538 individual students) to alert district management of a records problem. The district's report indicated which students did not have current Needs Assessments or current Individualized Education Programs. Our testing found that the district's records were substantially correct. However, these students were included on the P-223H report which is used to allocate state apportionment money. In addition, the district has not retained adequate documentation to allow verification of all P-223H reports submitted from fiscal year 1989-90 through fiscal year 1993-94.

We selected all of the students flagged on the district handicapped enrollment report for October 1993 and traced them back to the student files. Of 538 files tested, we found 234 full time equivalent (FTE) ineligible students overreported to SPI during the 1993-94 school year. This represented 8.25 percent of students reported. A review of the two reports available per year found some of the same students incorrectly reported for the four preceding years. We have projected the amount of overpayment the district has received from SPI during the five years in question by multiplying this percentage times the total amount of federal money received during the preceding five years. As a result, we question \$372,201 of federal handicapped money (CFDA 84.027). Due to the apportionment formulas used by SPI we were unable to project, accurately, the overpayment of state special education funding the district received.

The *Washington Administrative Code* (WAC) 392-171 defines the criteria which must be met in order for a student to be included on the Form P-223H report.

Additionally the *SPI Administrative and School Business Services Bulletin No. 36-94* Section V Part L., Documentation of Enrollment for Audit, states in part:

Enrollment reporting errors found in an audit generally require revised reports and adjustments to state apportionment

By reporting ineligible students on the P-223H report the district has received excess state and federal funding for which they were not entitled.

The district's management did not properly review their handicapped enrollment reports to determine eligibility for SPI reports.

We recommend the district contact the federal Department of Education and SPI to determine the amount of repayment required. We further recommend that only eligible special education students be reported to SPI.

2. Internal Controls Over Fixed Assets Should Be Improved

Our audit of the district's fixed asset system disclosed the following internal control weaknesses:

- a. The district fixed asset system does not contain the information required by federal grantors.
- b. Subsidiary ledgers for equipment do not reconcile to the general ledger.
- c. The actual value of lost, missing, or disposed of items is not tracked, an estimate is used for financial reporting.
- d. The district could not demonstrate it had conducted a comprehensive physical inventory within the last two years.

Circular A-110, *Administrative Requirements For Grants And Cooperative Agreements To State And Local Governments* prescribed by the Office of Budget and Management states in part:

___32 Equipment d.(1) and (2)

Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and the cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

A Physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

The *Accounting Manual For Public School Districts In The State Of Washington* prepared by the Superintendent of Public Instruction and the State Auditor's Office defines internal controls and management responsibilities as follows:

Chapter III, Sec. III-G-1, Pg. 1

An internal control system consists of the plan of organization and methods and procedures adopted by school district's management to ensure that resource use is consistent with law, regulation, and policy; that resources are guarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Failure to adequately control fixed assets has increased the possibility district assets will be lost, stolen or misused without management's knowledge.

This situation continues because district officials have not implemented proper internal controls and procedures to adequately protect and account for fixed assets.

We recommend that district officials improve internal controls over fixed assets by:

- a. Establishing and maintain comprehensive general fixed asset accounting records, including supporting documentation.

- b. Performing a comprehensive annual physical inventory. The results of the physical inventory should be reconciled with the general fixed asset control records, with differences resolved and recorded.
- c. Identifying district furniture and equipment with property tags whose numbers are recorded in the property records.
- d. Identifying, in the property records, federal funding sources as required by federal agency agreements.